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9 UNITED STATES DISTRICT COURT
10 FOR THE CENTRAL DISTRICT OF CALIFORNIA

11 UNITED STATES OF AMERICA,) CR No. 02- ____
12)
13 Plaintiff,) I N F O R M A T I O N
14 v.)
15) [18 U.S.C. § 371: Conspiracy
16 JOHN GIESECKE,) to Commit Securities Fraud;
17 JOSEPH SHEW,) 18 U.S.C. § 1343: Wire Fraud;
JOHN DESIMONE,) 15 U.S.C. §§ 78j(b), 78ff, 17
Defendants.) C.F.R. 240.10b-5: Securities
Fraud; 18 U.S.C. § 2: Aiding
and Abetting, Causing an Act
to be Done]

18 The United States Attorney charges:

19 COUNT ONE

20 [18 U.S.C. § 371]

21 [Defendants GIESECKE and SHEW]

22 I. INTRODUCTION

23 Background

24 At all times relevant to this information:

25 1. Homestore.com, Inc. ("Homestore") was a Delaware
26 corporation headquartered and with its main operations in Westlake
27 Village, California. Homestore was the largest Internet-based
28 provider of residential real estate listings and related content.

1 2. Homestore was a publicly traded company. Homestore's
2 stock was traded on the national market of the National Association
3 of Securities Dealers' Automated Quotation System ("NASDAQ"), an
4 electronic trading system. Homestore had shareholders located
5 throughout the United States, including in the Central District of
6 California.

7 3. As a public company, Homestore was required to comply with
8 the rules and regulations of the United States Securities and
9 Exchange Commission ("SEC"). Those rules and regulations are
10 designed to protect members of the investing public by, among other
11 things, ensuring that a company's financial information is
12 accurately recorded and disclosed to the public.

13 4. Under those regulations, Homestore and its officers had a
14 duty to: (a) make and keep books, records and accounts which, in
15 reasonable detail, fairly and accurately reflected the company's
16 business transactions; (b) devise and maintain a system of internal
17 accounting controls sufficient to provide reasonable assurances that
18 the company's transactions were recorded as necessary to permit
19 preparation of financial statements in conformity with Generally
20 Accepted Accounting Principles ("GAAP"); and (c) file with the SEC
21 quarterly reports (on Form 10-Q) which included financial statements
22 that accurately presented its financial condition and results of its
23 business operations in accordance with GAAP.

24 5. Homestore's outside auditor was PricewaterhouseCoopers
25 ("PwC").

26 6. Defendant JOHN GIESECKE ("GIESECKE") was a Certified
27 Public Accountant ("CPA"). Defendant GIESECKE served as the Chief
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1 Financial Officer ("CFO") at Homestore beginning in December 1998
2 through approximately December 2000. In approximately December
3 2000, defendant GIESECKE became the Chief Operating Officer ("COO")
4 of Homestore. Defendant GIESECKE served as the COO of Homestore
5 until September 2001, when he became the President of Homestore's
6 Retail and Consumer Services Division. Defendant GIESECKE held this
7 position until he resigned from Homestore on or about January 7,
8 2002. In his capacity as COO, defendant GIESECKE, among other
9 things, signed management representation letters that Homestore
10 submitted to PwC and supervised other employees at Homestore.

11 7. Defendant JOSEPH SHEW ("SHEW") was a CPA. Defendant SHEW
12 served as the Vice President of Homestore's Finance Department
13 beginning in 1998 through approximately December 2000. In
14 approximately December 2000, defendant SHEW became the CFO of
15 Homestore. Defendant SHEW served as the CFO of Homestore until he
16 resigned from Homestore on or about December 6, 2001. In his
17 capacity as CFO, defendant SHEW, among other things, signed Form 10-
18 Qs that Homestore submitted to the SEC, signed management
19 representation letters that Homestore submitted to PwC, and
20 supervised the employees in Homestore's Finance Department.

21 The Scheme to Defraud

22 8. Beginning in or about March 2001, and continuing to
23 December 2001, defendants GIESECKE and SHEW, together with high-
24 ranking corporate officers at Homestore, and others, participated in
25 and helped to execute a scheme to defraud shareholders of Homestore,
26 the investing public, PwC, and the SEC, and to deprive Homestore of
27 its right to honest services, by manipulating Homestore's reported
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1 revenues to make them appear higher than they really were.

2 9. Among the goals of the scheme was to ensure that Homestore
3 consistently reported that it had met or exceeded projected
4 quarterly results for advertising revenue and total revenue, when in
5 truth, Homestore's financial results were materially overstated.

6 II. THE OBJECTS OF THE CONSPIRACY

7 10. From in or about March 2001, and continuing to December
8 2001, within the Central District of California and elsewhere,
9 defendants GIESECKE and SHEW, together with high-ranking corporate
10 officers at Homestore, and others, knowingly and unlawfully
11 combined, conspired, and agreed to commit the following offenses
12 against the United States:

13 (a) to employ a device, scheme and artifice to defraud in
14 connection with the purchase and sale of Homestore securities, using
15 the means and instrumentalities of interstate commerce, in violation
16 of Title 15, United States Code, Sections 78j(b) and 78ff, and Title
17 17, Code of Federal Regulations, Section 240.10b-5;

18 (b) to make untrue, false, and misleading statements of
19 material fact in reports and documents required to be filed under
20 the Securities Exchange Act of 1934 and the rules and regulations
21 thereunder, in violation of Title 15, United States Code, Sections
22 78m(a) and 78ff, and Title 17, Code of Federal Regulations, Sections
23 240.12b-20 and 240.13a-13;

24 (c) to knowingly falsify Homestore's books, records, and
25 accounts, in violation of Title 15, United States Code, Sections
26 78m(b) (2) (A), 78m(b) (5) and 78ff, and Title 17, Code of Federal
27 Regulations, Section 240.13b2-1;

1 (d) to knowingly violate GAAP and to circumvent and fail
2 to implement a system of internal accounting procedures and
3 controls, in violation of Title 15, United States Code, Sections
4 78m(b) (2) (B) (ii), 78m(b) (5), and 78ff; and

5 (e) to knowingly make and cause to be made materially
6 false and misleading statements to PwC in connection with its review
7 of Homestore's financial statements and the preparation of the
8 quarterly reports required to be filed with the SEC, in violation of
9 15 U.S.C. § 78ff, and Title 17, Code of Federal Regulations, Section
10 240.13b2-2.

11 III. THE MANNER AND MEANS OF THE CONSPIRACY

12 11. In order to achieve and to attempt to achieve the goals of
13 the scheme, defendants GIESECKE and SHEW, high-ranking corporate
14 officers at Homestore, and others, caused Homestore to engage in a
15 complicated series of "round-trip" transactions whereby Homestore
16 entered into agreements with various intermediaries to facilitate
17 the circular flow of money from Homestore to the various
18 intermediaries and then back to Homestore. These "round-trip"
19 transactions and the accompanying circular flow of money enabled
20 Homestore to recognize its own cash as revenue in violation of GAAP.
21 These illegal arrangements allowed Homestore to fraudulently inflate
22 its revenue by essentially buying that revenue in violation of GAAP.

23 12. For example, in the first and second quarters of 2001,
24 Homestore entered into agreements with a major media company,
25 whereby Homestore agreed to refer advertisers to the major media
26 company to purchase on-line advertising from the major media
27 company. The major media company, in turn, agreed to purchase on-
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1 line advertising from Homestore. The amount of advertising
2 purchased by the major media company from Homestore was dependent
3 on, and correlated to, the amount of advertising purchased through
4 Homestore's referrals.

5 13. Homestore indirectly paid for the advertising purchases
6 made by the advertisers Homestore referred to the major media
7 company. Homestore purchased services, including software licenses,
8 advertising, and other products, from these advertisers. Homestore
9 generally had no business need to enter into these transactions with
10 these advertisers and also overpaid for the services it purchased
11 from these advertisers. As an unwritten condition of these
12 transactions, Homestore required these advertisers to purchase on-
13 line advertisements from the major media company with most or all of
14 the money Homestore spent with the advertisers. Moreover, Homestore
15 capitalized the payments made to these advertisers, thereby reducing
16 Homestore's quarterly expenses in "buying" its revenue and the
17 associated impact to Homestore's net income figure in the quarters
18 in which the payments to "buy" revenue were made.

19 14. In the first and second quarters of Homestore's fiscal
20 year 2001, Homestore paid a total of approximately \$49.8 million to
21 the advertisers in 16 separate transactions. The advertisers then
22 paid approximately \$45.1 million to the major media company to
23 purchase on-line advertisements. Homestore, in turn, recognized
24 approximately \$36.7 million in revenue from the major media
25 company's related purchase of on-line advertising at Homestore.
26 Homestore included this bogus revenue from the fraudulent "round-
27 trip" transactions in the financial statements filed on its Forms
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1 10-Q for the first three quarters of Homestore's fiscal year 2001.

2 15. In addition to devising and entering into the type of
3 "round-trip" transactions discussed above, defendants GIESECKE and
4 SHEW, high-ranking corporate officers at Homestore, and others, also
5 utilized the following means to achieve and attempt to achieve the
6 goals of the scheme:

7 (a) Causing fraudulent entries to be made to company books
8 and records at quarter-end regarding the "round-trip" and related
9 transactions;

10 (b) Concealing the true nature of the improper revenue-
11 generating transactions from PwC;

12 (c) Making false statements and/or material omissions to
13 PwC regarding the nature and extent of the fraudulent "round-trip"
14 and related transactions;

15 (d) Filing materially false and misleading financial
16 statements on Form 10-Q with the SEC;

17 (e) Making materially false and misleading public
18 statements about Homestore's financial performance to Wall Street
19 analysts and in press releases;

20 (f) Exercising stock options and selling Homestore stock
21 with knowledge that Homestore's revenues and earnings were
22 materially and fraudulently overstated.

23 16. It was part of the conspiracy to defraud that defendants
24 GIESECKE and SHEW, high-ranking corporate officers at Homestore, and
25 others, regularly met and spoke in person, and by telephone, and
26 corresponded by email during the relevant time period to discuss,
27 among other things, the status of advertising revenue and total
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1 revenue for the quarter, and to compare Homestore's likely quarterly
2 revenues with targeted goals. If it appeared that Homestore would
3 fall short of targets, defendants GIESECKE and SHEW, high-ranking
4 corporate officers at Homestore, and others, agreed to and did
5 engage in the fraudulent practices described above to overstate
6 Homestore's financial results to make it appear that quarterly
7 targets had been met.

8 17. On or about December 21, 2001, Homestore announced that
9 the Audit Committee of the Board of Directors was conducting an
10 inquiry into certain of Homestore's accounting practices and that
11 Homestore would restate certain of its financial statements. The
12 NASDAQ suspended trading in Homestore's stock on December 21, 2001
13 at \$3.60 per share. Homestore's stock resumed trading on January 7,
14 2002, and closed that day at \$2.46.

15 18. On or about April 3, 2002, following an internal
16 investigation and audit, Homestore reported that during the first
17 three quarters of its fiscal year 2001, Homestore had materially
18 overstated advertising revenue by \$46,410,000 or 39% of advertising
19 revenue for the period, and 13% of total revenue for the period.

20 IV. OVERT ACTS

21 19. In furtherance of the conspiracy and in order to
22 accomplish its objects, defendants GIESECKE and SHEW, high-ranking
23 corporate officers at Homestore, and others, committed and caused to
24 be committed the following overt acts, among others, within the
25 Central District of California and elsewhere:

26 OVERT ACT NO. 1: On or about March 31, 2001, defendants
27 GIESECKE and SHEW, high-ranking corporate officers at Homestore, and
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1 others caused Homestore to improperly recognize at least \$15 million
2 dollars in revenue in the fiscal first quarter ended March 31, 2001
3 in violation of GAAP based on the fraudulent "round-trip"
4 transactions discussed above.

5 OVERT ACT NO. 2: On or about April 25, 2001, defendants
6 GIESECKE and SHEW, high-ranking corporate officers at Homestore, and
7 others caused Homestore to issue a press release announcing the
8 results for the fiscal 2001 first quarter ended March 31, 2001. The
9 announcement was materially false in that, among other things, it
10 reported that pro forma revenues for this quarter were \$118.4
11 million as compared to \$57.6 million from the prior year,
12 representing an increase of 105%. In fact, revenues were materially
13 overstated by approximately \$15 million.

14 OVERT ACT NO. 3: On or about May 15, 2001, defendants
15 GIESECKE and SHEW, high-ranking corporate officers at Homestore, and
16 others signed a "management representation letter" to PwC in
17 connection with its quarterly review of Homestore's first quarter
18 2001 financial statements. The letter included the following
19 materially false representations:

20 (i) "The interim consolidated financial statements referred to
21 above [for the quarter ended March 31, 2001] are fairly presented in
22 conformity with accounting principles generally accepted in the
23 United States of America, and include all disclosures necessary for
such fair presentation and disclosures otherwise required to be
included therein by the laws and the regulations to which the
Company is subject."

24 (ii) "We have reviewed the criteria for barter transactions
25 included in the Emerging Issue Task Force Issue No. 93-11,
26 *Accounting for Barter Transactions*. We have determined that all of
our barter transactions are in accordance with the provisions of the
above guidance."

27 (iii) "To the best of our knowledge and belief, no events have
28 occurred subsequent to the interim balance sheet date and through

1 the date of this letter that would require adjustment to or
2 disclosure in the aforementioned interim consolidated financial
statements."

3 The foregoing statements were false and misleading because
4 defendants GIESECKE and SHEW, high-ranking corporate officers at
5 Homestore, and others failed to disclose the fraudulent "round-trip"
6 transactions and the improperly recognized revenue associated with
7 them.

8 OVERT ACT NO. 4: On or about May 15, 2001, defendants
9 GIESECKE and SHEW, high-ranking corporate officers at Homestore, and
10 others caused Homestore to file a report with the SEC on Form 10-Q,
11 reporting its financial results for the fiscal 2001 first quarter
12 ended March 31, 2001. The reported results were materially false in
13 that they included improperly recorded advertising revenue, and
14 failed to disclose that management was engaged in and directing
15 others to engage in fraudulent accounting practices.

16 OVERT ACT NO. 5: On or about June 30, 2001, defendants
17 GIESECKE and SHEW, high-ranking corporate officers at Homestore, and
18 others caused Homestore to improperly recognize at least \$22.445
19 million dollars in revenue in the fiscal second quarter ended June
20 30, 2001 in violation of GAAP based on the fraudulent "round-trip"
21 transactions discussed above.

22 OVERT ACT NO. 6: On or about July 25, 2001, defendants
23 GIESECKE and SHEW, high-ranking corporate officers at Homestore, and
24 others caused Homestore to issue a press release announcing the
25 results for the fiscal 2001 second quarter ended June 30, 2001. The
26 announcement was materially false in that, among other things, it
27 reported that revenues for the quarter were \$129.3 million as
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1 compared to \$72.4 million from the prior year, representing an
2 increase of 79%. In fact, revenues were materially overstated by
3 approximately \$22.445 million.

4 OVERT ACT NO. 7: On or about August 9, 2001, defendants
5 GIESECKE and SHEW, high-ranking corporate officers at Homestore, and
6 others signed a "management representation letter" to PwC in
7 connection with its quarterly review of Homestore's financial
8 statements. The letter made the same materially false
9 representations included in the May 15, 2001 representation letter.

10 OVERT ACT NO. 8: On or about August 14, 2001, defendants
11 GIESECKE and SHEW, high-ranking corporate officers at Homestore, and
12 others caused Homestore to file a report with the SEC on Form 10-Q,
13 reporting its financial results for the fiscal 2001 second quarter
14 ended June 30, 2001. The reported results were materially false in
15 that they included improperly recorded advertising revenue, and
16 failed to disclose that management was engaged in and directing
17 others to engage in fraudulent accounting practices.

18 OVERT ACT NO. 9: On or about September 30, 2001, defendants
19 GIESECKE and SHEW, high-ranking corporate officers at Homestore, and
20 others caused Homestore to improperly recognize at least \$8.965
21 million dollars in revenue in the fiscal third quarter ended
22 September 30, 2001 in violation of GAAP based on the fraudulent
23 "round-trip" transactions discussed above.

24 OVERT ACT NO. 10: On or about November 1, 2001, defendants
25 GIESECKE and SHEW, high-ranking corporate officers at Homestore, and
26 others caused Homestore to issue a press release announcing the
27 results for the fiscal 2001 third quarter ended September 30, 2001.
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1 The announcement was materially false in that, among other things,
2 it reported that revenues for the quarter were \$116.1 million as
3 compared to \$86.9 million from the prior year, representing an
4 increase of 34%. In fact, revenues were materially overstated by
5 approximately \$8.965 million.

6 OVERT ACT NO. 11: On or about November 14, 2001, defendants
7 GIESECKE and SHEW, high-ranking corporate officers at Homestore, and
8 others caused Homestore to file a report with the SEC on Form 10-Q,
9 reporting its financial results for the fiscal 2001 third quarter
10 ended September 30, 2001. The reported results were materially
11 false in that they included improperly recorded advertising revenue,
12 and failed to disclose that management was engaged in and directing
13 others to engage in fraudulent accounting practices.

COUNT TWO

[18 U.S.C. §§ 1343, 2]

[Defendant GIESECKE]

I. INTRODUCTION

20. The United States Attorney repeats and realleges paragraphs 1 through 9, and 11 through 19, of this information as if fully set forth herein.

II. THE SCHEME TO DEFRAUD

21. Beginning in or about March 2001, and continuing until December 2001, within the Central District of California and elsewhere, defendant GIESECKE, together with others known and unknown, knowingly and with intent to defraud, participated in and executed a scheme to defraud investors and potential investors in Homestore stock, and to obtain money or property from investors in Homestore stock by means of material false and fraudulent pretenses, representations, and promises, and the concealment of material facts, as described in paragraphs 11 through 19 of this information.

III. THE USE OF THE WIRES

22. On or about July 25, 2001, within the Central District of California and elsewhere, defendant GIESECKE, for the purpose of executing the above-described scheme to defraud, caused, and aided and abetted the transmission of signals and sounds by means of wire communication in interstate commerce, as follows: In a conference telephone call with Wall Street analysts in various states outside of California, defendant GIESECKE and other senior corporate officers at Homestore's headquarters in California falsely represented that Homestore's revenues for the fiscal second quarter

1 ended June 30, 2001 were \$129.3 million as compared to \$72.4 million
2 from the prior year, representing an increase of 79%, when, in fact,
3 as defendant GIESECKE and others well knew, those revenues were
4 materially overstated by approximately \$22.445 million.

COUNT THREE

[15 U.S.C. §§ 78j(b), 78ff; 17 C.F.R. § 240.10b-5]

[Defendant DESIMONE]

I. INTRODUCTION

23. The United States Attorney repeats and realleges paragraphs 1 through 9, and 11 through 19, of this information as if fully set forth herein.

24. Defendant JOHN DESIMONE ("DESIMONE") was employed by Homestore from June 1999 until January 2002. Defendant DESIMONE served as Director of Operations Planning and Transactions in Homestore's Finance Department from approximately October 1999 to June 2001. Defendant DESIMONE served as Vice President of Transactions in Homestore's Finance Department from approximately June 2001 to October 2001. Defendant DESIMONE served as Vice President of Planning in Homestore's Real Estate Group from October 2001 until he was placed on administrative leave in December 2001. In these positions, defendant DESIMONE had supervisory authority over other Homestore employees.

25. In approximately January 2001, defendant DESIMONE opened a securities account at Merrill Lynch, Pierce, Fenner & Smith Incorporated, a registered broker-dealer, through which he effected trades in Homestore stock.

II. SCHEME TO DEFRAUD

26. From on or about April 30, 2001 and continuing to August 17, 2001, within the Central District of California and elsewhere, defendant DESIMONE knowingly and willfully and in connection with the purchase and sale of Homestore stock employed a device,

1 artifice, and scheme to defraud, and engaged in acts, practices, and
2 courses of business that operated as a fraud and deceit, through the
3 use of the means and instrumentalities of interstate commerce and
4 the use of the mails. The scheme operated in the following manner:

5 (a) Beginning at least as early as March 2001 and
6 continuing through at least August 2001, defendant DESIMONE obtained
7 material non-public information in the regular course of his duties
8 as a Homestore employee that Homestore was engaging in fraudulent
9 "round-trip" transactions in which the company improperly recognized
10 revenue to meet quarterly revenue expectations as discussed in
11 paragraphs 11 through 14 of this information.

12 (b) As a result of meetings, informal conversations,
13 telephone conversations, and email exchanges with high-ranking
14 corporate officers and others at Homestore, defendant DESIMONE was
15 aware that Homestore improperly recognized revenue through the use
16 of "round-trip" transactions.

17 (c) Defendant DESIMONE was further aware of the scheme to
18 improperly recognize revenue through the use of "round-trip"
19 transactions because he participated in the scheme, by, among other
20 things,

21 (i) helping to structure Homestore's transactions
22 with the advertisers that Homestore referred to the major media
23 company as discussed in paragraphs 11 through 14 of this
24 information;

25 (ii) facilitating the collection of money from the
26 major media company that Homestore recognized as revenue as
27 discussed in paragraphs 11 through 14 of this information;
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1 (iii)concealing the "round-trip" transactions from
2 PwC; and

3 (iv) misleading PwC concerning the nature of the
4 "round-trip" transactions.

5 (d) As a result of the fraudulent scheme to improperly
6 recognize revenue, defendant DESIMONE was aware that Homestore's
7 revenues were materially overstated in the first, second, and third
8 quarters of 2001.

9 (e) Defendant DESIMONE knew that this information was
10 material and non-public, and that he could not buy or sell Homestore
11 common stock before the information had been announced to the
12 public.

13 (f) Based on the material non-public information in his
14 possession, from on or about April 30, 2001 to on or about August
15 17, 2001, defendant DESIMONE sold approximately 9,375 shares of
16 Homestore common stock.

17 (g) During the course of, and as a result of, the scheme,
18 defendant DESIMONE realized profits of \$169,781 through the sale of
19 Homestore stock.

20 (h) During the course of the scheme, defendant DESIMONE
21 used telephones to cause the trading of his Homestore securities,
22 and caused mailings confirming trades of his Homestore securities to
23 be sent to him.

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1 27. On or about the following dates, in the Central District
2 of California and elsewhere, by the use of the means and the
3 instrumentalities of interstate commerce and of the mails, defendant
4 DESIMONE caused the following securities trades to be executed:

5	<u>Date</u>	<u>Sales of Homestore Stock</u>
6	4/30/01	3,125 shares of Homestore stock
7	5/17/01	1,562 shares of Homestore stock
8	8/17/01	1,390 shares of Homestore stock
9	8/17/01	1,598 shares of Homestore stock
10	8/17/01	1,600 shares of Homestore stock
11	8/17/01	100 shares of Homestore stock

12
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